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CORPORATE GOVERNANCE STATEMENT

1. Corporate Governance Code

Larox Corporation is a Finnish public limited company that follows the Finnish Companies' Act, other legislation and regulations applicable to publicly-quoted companies, and the articles of association of Larox Corporation in its decision-making and administration.

In addition, Larox Corporation applies the Finnish Corporate Governance Code for listed companies, which came into force on 1st January, 2009.

2. Availability of the Corporate Governance Code

The Corporate Governance Code is available in its entirety in the internet www.cgfinland.fi.

More detailed description of the Larox's corporate governance is available at the Larox's website. www.larox.com.

3. Board of Directors

Larox Corporation's board of directors is responsible for organizing appropriate supervision of the company's administration, operations, bookkeeping, and finances. The board always addresses and makes decisions on matters that are financially, operationally, or principally significant to the Group.

The board has no special committees that would be responsible for certain board operations. The company has no supervisory board.

3.1. Main duties of the Board

The board of directors has an annual schedule and agenda for its meetings, which is modified as required.

The matters addressed by the board include:

- deciding on Group strategy and approving the strategies specific to certain operational fields
- deciding on the Group's structure and organization

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- addressing and accepting interim reports, financial statements including the consolidated financial statement, and the report by the board
- accepting the operational plan, budget, and investment plan of the Group
- deciding on investments, company acquisitions and sales, reorganization, and contingent liabilities
- accepting the Group's risk management and reporting procedures
- accepting the Group's insurance policies
- accepting the Group's financing policies
- deciding on the Group management's remuneration and incentive system
- preparing dividend policy and assuming responsibility for the development of shareholder value
- appointing the managing director of the company and deciding on the remuneration they will be entitled to
- appointing the deputy of the managing director
- verifying Larox Corporation's values
- assuming responsibility for tasks assigned to the board either by the Finnish Companies' Act or some other body.

The board also takes care of the duties of the audit committee, ie:

- monitors the reporting process of financial statements
- supervises the financial reporting process
- monitors the efficiency of the company's internal control, internal audit and risk management systems
- reviews the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement
- monitors the statutory audit of the financial statements and consolidated financial statements
- evaluates the independence of the statutory auditor or audit firm, particularly the provision of related services to the company to be audited
- prepares the proposal for resolution on the election of the auditor.

3.2. Board meetings, the number of board meetings held during the fiscal year 2009 and the participation activity of its members

The chairman of the board of directors is responsible for summoning and managing the board meetings. The dates of the meetings are agreed in advance and the issues addressed include at least the following: previous year's financial statement, interim reports for the past 3 months, company strategy, and the budget for the following year. One of the board members will act as a meeting secretary.

Minutes are prepared of each board meeting, which will be commented and most often dealt with

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and approved in the beginning of the next board meeting.

When voting, the decision of the board of directors is the proposal favoured by the majority of board members, or, if the vote on a proposal results in a tie, the proposal favoured by the chairman.

When electing individuals, tied votes are decided by drawing lots.

The board met seven times in 2009. The participation rate of the board members was 100%. The managing director participated in all of the meetings held.

3.3. Board composition

The company has no special regulations, according to which the company puts up the board member candidates or elects the board members. According to its articles of association, Larox Corporation's board of directors must have between three and six members. The term of office of the board members is one year, with the period of service starting following the general meeting in which their election took place and terminating after the subsequent ordinary general meeting. The general meeting elects all members of the board of directors. The articles of association do not define an upper age limit for board members, limit the number of times individuals can be elected into the board, or restrict the power of the general meeting regarding the election of board members. The board elects a chairman from among its members.

The names of the candidates for board membership are published in the invitation to the general meeting or, after the invitation has been sent, by some other means prior to the general meeting provided that the candidate has given their consent and that shareholders who own a minimum of 10% of the total number of votes entitled by the company's shares are in favour of their election. The company provides the personal details of the candidates on its Internet pages. The candidates should have the competence required by the task and the opportunity to devote adequate time to their duties. The current needs and developmental phase of the company will be taken into account in the composition of the board of directors. The board members represent both genders.

The majority of the board members should be independent from the company and at least two of these independent members of the board should also be independent from the most important shareholders of the company. In addition to the personal details of the board members, the company will also mention who of the board members are considered to be independent from the company and who from its most important shareholders.

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3.4. Board members 2009

Mr Timo Vartiainen (born 1955)

- Member of the Larox Corporation Board of Directors since 1977
- Chairman of the Board since 2000
- Not independent member of the company or important shareholders
- B.Sc. (Mech)
- Work history: Employed by Larox 1983, President of Larox Corporation from 1990 to 2000
- Current main occupation: Chairman of the Larox Board

Mrs Katariina Aaltonen (born 1959)

- Member of the Larox Corporation Board of Directors since 1988
- Not independent member of the company or important shareholders
- M.Sc. (Econ), CEFA
- Member of the Larox Corporation Board of Directors, Managing Director of Capillary Oy
- Work history: Employed by Larox since 1984 with various areas of responsibility, Chief Financial Officer at Larox 1990-1998
- Current main occupation: Managing Director, Capillary Oy

Mr Thomas Franck (born 1950)

- Member of the Larox Corporation Board of Directors since 2005
- Independent member of the company or important shareholders
- M.Sc. (Eng.)
- Work history: International experience in production and marketing through Neste-Borealis-Fortum-Rettig
- Current main occupation: CEO, Rettig Group Ltd Bore, and Vice President, Group Business Development, Rettig Group Ltd

Mr Teppo Taberman (born 1944)

- Member of the Larox Corporation since 1995
- Independent member of the company or important shareholders
- Board of Directors since 1995
- M.SC. (Econ)
- Work History: 20 years in banking business, including Deputy Chief Executive Officer in two different Banks.
- Current main occupation: Professional board member

Mr Matti Ruotsala (born 1956)

- Member of the Larox Corporation Board of Directors since 2005
- Independent member of the company or important shareholders
- M.SC. (Eng.)
- Work history: 2005-2007 Managing Director Valtra Oy Ab and Vice President AGCO Corporation, 2001-2004 Chief Operating Officer and Deputy to CEO, before that Technical Director and Commercial Director, KCI Konecranes Plc. From 1991 to 1994 Area Director Asia Pacific of Kone OY's Crane Business. Experience in international business for over 20 years.
- Current main occupation: Executive Vice President, Power Division, Fortum Corporation

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4. Audit Committee

Larox Corporation has no Audit Committee. The Audit Committee's tasks are taken care of by the Board of Directors.

5. Managing Director

Larox Corporation has a managing director. His duties include managing the operations of the company in accordance with the board's instructions and regulations, and informing the board about the development of the company's operations and financial situation. He is also responsible for organizing the everyday administration of the company and ensuring that the financing of the company is arranged in a reliable manner. The managing director is never appointed as the chairman of the board.

In most meetings, the main task of the managing director is to present matters to the board. When considered appropriate, the managing director may authorize a member of the Group management team to present a particular matter to the board or prepare a draft resolution.

The board appoints the managing director and his deputy. The terms and conditions of the managing director's employment have been specified in writing and have been approved by the board. The financial benefits of the managing director have been described in section 5 (Remuneration). The terms and conditions of the employment of the deputy to the managing director have also been approved in writing.

The term of office of the managing director and his deputy is not fixed and they are appointed to their positions until further notice. The managing director is not a member of the company's board of directors.

Mr. Toivo Matti Karppanen, M.Sc. (Tech), (born in 1956), worked as Larox Corporation's Managing Director in 2009.

6. Internal Control and Risk Management Pertaining to Financial Reporting

6.1. Internal control and risk management framework in Larox

Internal control is a process effected by the board of directors, management and all levels of personnel in the Larox Group to ensure that management has reasonable assurance that

- operations are effective, efficient and aligned with strategy
- financial reporting and management information is reliable, complete and timely

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- the Group is in compliance with applicable laws and regulations as well as Larox internal policies and ethical values including sustainability

As a framework for defining internal controls, Larox aims for implementing the most business relevant components of the common internal control frameworks and models for enterprise risk management.

The board's task is to promote the interests of the company and all its shareholders, and according to good corporate governance to ensure that company has internal control principles and monitors the efficiency of the company's internal controls, internal audit and risk management.

The aim of internal control framework in Larox Group is to

- focus on the most business relevant risks and issues from strategic alignment and operational effectiveness point of view
- promote ethical values, good corporate governance and risk management practices
- ensure compliance with laws, regulation, and Larox internal policies, and
- ensure reliable, complete and timely financial reporting and management information to support the needs of external stakeholders as well as internal decision-making.

The Board of Directors approves the risk management policy that contains the main principles for the risk management and general tolerances for the risks. The managing director initiates the risk management process at the Larox Group level by delegating the responsibility areas for implementing the principles to the business unit leaders and subsidiary managing directors. The managing director nominates also a risk manager in charge of coordinating the overall risk management process at the Larox Group level.

Larox Group has started the integration of the risk management process in the internal control framework. This has been performed through describing internal control structures for the main business and operative processes, including also the financial reporting process. The objective in the future is to continue this integration to expand the coverage of the internal control framework to all key processes in the Group.

6.2 Internal control regarding the financial reporting process

Internal control over the financial reporting process is a part of the whole internal control system in Larox. The objective of the internal control in terms of the financial reporting is to ensure the reliability of the financial reporting. Reliable financial reporting process produces accurate, timely and complete financial information to the stakeholders.

Internal control related to financial reporting aims to ensure that the external financial information is prepared in accordance with the international and local legislation and standards.

Larox applies IFRS-standards (as adopted by the European Community) to its consolidated financial statements, and follows also the standards and regulations set by NASDAQ OMX Helsinki Stock Exchange and Finnish Supervisory Authority. Likewise, Larox financial reporting

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complies with the Finnish Securities Markets Act and Limited Liability Companies Act. The financial statements of the parent company are prepared in accordance with Finnish Accounting Act and opinions and ordinances on Finnish Accounting Board.

6.3 Control environment in Larox

The Board of Directors is responsible for creating and maintaining the internal control over the financial reporting process. Written management guidelines support the Board of Directors in ensuring that the internal control in terms of the financial reporting is efficient, and that financial reporting is reliable.

Larox updates yearly a Group-level accounting manual that determines the accounting policies, and roles and responsibilities followed in the external and internal accounting. The manual contains also description of the key accounting principles (e.g. revenue recognition), transfer pricing policies and guidelines for the budgeting process.

The accounting manual is reviewed regularly and it is communicated throughout the corporation. As regards of the IFRS related instructions, there is a nominated person responsible for maintaining the IFRS manual. External advisor is consulted in the case of complex IFRS related questions.

Larox has an internal audit function that reports to the Board of Directors. The purpose of the internal audit from financial reporting perspective is to supervise in the operation of the company and support the work performed by the Board of Directors. This is conducted through the audit activities that aim to ensure the reliability of the financial reporting. Internal audit has been outsourced to a third party from the year 2005 onwards.

6.4 Risk assessment

Risk assessment procedures in terms of the financial reporting process cover identification of the risks that may arise the business units, subsidiaries, or, the Group level operations. The objectives for the procedures needed to respond to the identified risks are also determined as part of the risks assessment process. The risk assessment is a continuous process that is updated on a timely basis through taking into account the changes in the business environment and in the operation of the corporation.

6.5 Control activities

Larox Group has identified key control activities that aim to respond the risks identified in the risk assessment process. Through the control activities, a reasonable assurance can be reached to make sure that the financial reporting of the corporation is accurate, timely and complete. The company is currently in process of implementing the controls over financial reporting throughout the corporation, at the Group level, subsidiary level and in the most significant business units.

Larox organisation structure is based on the matrix model, and therefore, the responsibility areas and control activities in the business units and in the subsidiaries are partly cutting across.

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However, these activities are necessary to ensure reliable financial reporting. An example of these kind of activities is the analytical reviews performed on the results both in the business units and subsidiaries.

In 2009 the minimum requirements for the controls to ensure reliable financial reporting process were defined. This work resulted in the objectives and descriptions for the consolidation and subsidiary level controls. These controls respond efficiently to the risks involved in the financial reporting process, which were identified as part of the risk assessment process. These common control descriptions contain a number of activities such as reconciliations, authorizations, approvals, verifications, segregation of duties and safeguarding the assets. In addition, the company level controls such as maintaining accounting manuals and reporting schedules were included in the scope, when minimum requirements were set.

Integration of all business units and subsidiaries under common internal control framework has been improved in 2009. The purpose of this integration is to take consistent processes and controls into use in all relevant business units and locations, notifying the requirements of local regulation and other factors affecting the operation at the local level.

6.6 Information and communication

The guiding statements in Larox operation – Mission, Vision and Quality policy – are communicated to the personnel by the company intranet pages and through the managing directors' quarterly reviews and specifically organised presentations. Likewise, the accounting manuals, period-end reporting checklists, and IFRS guidance is available in the Larox intranet pages. Larox has also nominated a team to provide support to the subsidiaries in the accounting related questions.

The management group is meeting on monthly basis to discuss through the performance at the Group, business unit and subsidiary level. Each member in the management group has a specific area or unit to be responsible for. Unit management is communicating before the meeting to the management group the results in the written format, which then provide the basis on the discussion in the management group meeting.

One of the focus areas in 2009 was to improve the consistency and efficiency of the financial reporting process at the group and subsidiary levels. The company arranged during the year workshops for this discussion, in which key personnel from the consolidation and subsidiary accounting teams identified key risks and controls for external financial reporting. As a result of these workshops, action points and timelines that aim to improve the financial reporting process were agreed on.

6.7 Monitoring

Larox Group business model is global and it has 18 subsidiaries in all major continents. Larox headquarter is located in Finland. The subsidiaries are reporting the results on monthly, quarterly and yearly basis to the parent company that is responsible for preparing the consolidated financial statements and monitoring the performance of the operation at the consolidated level.

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The local subsidiaries have various accounting systems in use but the tendency in the past years has been to move into use of one common ERP system. For the consolidation purposes, Larox is using a common group consolidation system. For the external reporting, the company has also one common chart of account that is updated regularly when needed.

The monitoring is conducted to ensure that the financial information is reliable for the decision making and that internal control is operating efficiently. In Larox Group, the monitoring has been embedded in the work performed by the Board of Directors, managing director, group management and other management teams, and internal audit function. The monitoring contains analysing the monthly, quarterly and annual performance of the corporation at the various levels of the organisation, reviews and procedures performed by the internal audits, and using the external consultants when needed.

The analyses performed in the main financial reporting processes are the foundation for the monitoring of the operative performance. These processes are Strategy, Budgeting, Internal Accounting, and External Accounting.

In the Budgeting process, the comfort on the budgeted figures is reached through analysing the budgeted figures against the operational plan that is set in the Strategy process. In the Internal Accounting process the actuals are analysed against the budgeted and estimated performance, and on the other hand, the estimates are updated in accordance with the indications that have been received from the markets and business environment. In the External Accounting process, interim and annual reporting is compared with the internal accounting reports to get overall assurance that the figures in the external reporting are at the correct level.

The operation of the internal audit function is aligned with the annual internal audit plan that is approved by the Board of Directors. In the plan the risks involved in various businesses and locations are considered which is the basis on selection of the focus areas on a yearly basis on the internal audit.